

(g) Whenever the words "include," "includes" and "including" are used in this Agreement, they are deemed to be followed by the words "without limitation."

(h) The words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section, Subsection or other subdivision.

(i) All share and price calculations will be appropriately adjusted for any stock dividends, stock splits or similar events.

Section 9.11. Waiver of Jury Trial.

Each party hereto waives its rights to a trial by jury in connection with any matter related to the Conversion, the Merger or this Agreement.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of Purchaser, CareFirst and CFAC as of the date first above written.

PACIFIC

By: _____
Name:
Title:

CAREFIRST, INC.

By: _____
William L. Jews
President and Chief Executive Officer

CF ACQUISITION CORP.

By: _____
Name:
Title:

APPENDIX A

PRINCIPAL TERMS OF PLAN OF CONVERSION

The board of directors of CareFirst, Inc. and each of its non-profit subsidiaries (CareFirst of Maryland, Inc., Group Hospitalization and Medical Services, Inc. ("GHMSI") and Blue Cross Blue Shield of Delaware, Inc. ("BCBSD")) will adopt a Plan of Conversion providing for the conversion of the companies from non-profit to for-profit status. For all companies except GHMSI, the conversion will be accomplished by means of the adoption of amended and restated articles or certificates of incorporation providing that the corporation will operate as a for-profit business corporation. The conversions will be subject to regulatory approval in each of the jurisdictions listed. GHMSI, a federally chartered corporation, will be re-chartered in the District of Columbia, which will require approval of the U.S. Congress. In determining whether to approve the conversion, the regulators must find that the fair value of the assets has been received and that the conversion is in the public interest.

Following the amendment of its charter (or, in the case of GHMSI, its re-chartering), each subsidiary insurer will issue shares of its Common Stock (which will constitute all of its issued and outstanding shares) to CareFirst, thus becoming a wholly-owned subsidiary of CareFirst. CareFirst will then issue to tax-exempt entities in Maryland, the District of Columbia and Delaware a number of shares of Common Stock of CareFirst representing the percentage of the aggregate value of CareFirst represented by the subsidiary insurer of the particular jurisdiction, as agreed among the regulators in the jurisdictions involved. Following those issuances, all of the issued and outstanding capital stock of CareFirst will be owned by the tax-exempt entities designated by the regulators in those jurisdictions.

In the Merger, each share of CareFirst Common Stock will be converted into an equity interest in Purchaser and an amount of cash equal to the per share purchase price payable pursuant to the terms of the merger.

After the merger, the Primary CareFirst Insurers will each continue to provide healthcare services as licensed insurers to the communities in each of their respective jurisdictions that they currently serve.

DEFINITIONS

"Affiliate" as to a specified person, means any person which directly or indirectly through one or more intermediaries, controls (i.e., possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of a person whether through ownership of voting securities, by contract, through membership or otherwise), is controlled by, or is under common control with, the specified person.

"Aggregate Cash Consideration" means the amount of the Purchase Price to be delivered in cash (or immediately available funds) by Purchaser at the Closing, which amount shall be specified by Purchaser at least five (5) business days prior to Closing and shall not be less than \$450 million.

"Aggregate Note Consideration" means a principal amount of Subordinated Notes specified by the Purchaser at least five (5) business days prior to the Closing in circumstances where the provisions of Section 3.1(b) of this Agreement apply, which principal amount shall not exceed the Maximum Note Consideration.

"Aggregate Stock Consideration" means a number of shares of Purchaser Common Stock equal to (i) the Purchase Price less the Aggregate Cash Consideration and less the Aggregate Note Consideration, divided by (ii) the Average Market Price.

"Agreement" means this Agreement and Plan of Merger dated as of _____, 2001, together with the Appendices and attachments hereto and thereto.

"Articles of Merger" shall have the meaning set forth in Section 2.2 hereof.

"Assumed Stock Consideration" means an amount equal to the result of (i) (A) the Purchase Price less the Aggregate Cash Consideration divided by (B) \$70.00, multiplied by (ii) the Average Market Price.

"Average Market Price" means the average of the daily closing price of the Purchaser Common Stock on the NYSE for the 20-trading day period ending on the [fifth] trading day prior to the Closing Date.

"BCBSA" shall mean the Blue Cross and Blue Shield Association.

"BCBSD" means BCBSD, Inc., a non-stock Delaware corporation, d/b/a Blue Cross Blue Shield of Delaware.

"BCBS-MD" means CareFirst of Maryland, Inc., a Maryland corporation licensed as a non-profit health service plan.

"BCBS-NCA" means Group Hospitalization and Medical Services, Inc. d/b/a Blue Cross and Blue Shield of the National Capital Area, a non-profit corporation incorporated under federal charter.

"Benefit Plans" means all employee benefit plans as defined in Section 3(3) of ERISA and all other employee benefit arrangements, obligations, customs, or practices (including but not limited to a payroll practice), whether or not legally enforceable, to provide benefits, other than salary, as compensation for services rendered, to current or former directors, employees or agents of CareFirst or the Purchaser, as the case may be or an ERISA Affiliate of such party, including, without limitation, employment agreements (whether written or oral), severance agreements, executive compensation arrangements, incentive programs or arrangements, sick leave, vacation pay, severance pay policies, plant closing benefits, salary continuation for disability, consulting or other compensation arrangements, workers' compensation, deferred compensation, bonus, stock option or purchase, hospitalization, medical insurance, life insurance, tuition reimbursement or scholarship programs, any plans providing benefits or payments in the event of a change of control, change in ownership, or sale of a substantial portion (including all or substantially all) of the assets of any business of CareFirst or the Purchaser, other than Multiemployer Plans, maintained by CareFirst or the Purchaser or an ERISA Affiliate or to which CareFirst or the Purchaser or an ERISA Affiliate has contributed or is or was obligated to make payments, in each case with respect to any current or former employees, directors or agents of CareFirst, the Purchaser or an ERISA Affiliate of such party, in the six-year period before the date of this Agreement.

"Best Efforts" shall mean, as to a party hereto, an undertaking by such party to perform or satisfy an obligation or duty or otherwise act in the manner that a person desirous of achieving a result would act in similar circumstances to ensure that such result is achieved as expeditiously as possible; provided however, that such party shall not be required to take any action that would result in a materially adverse change in the benefits to such person of this Agreement and the transactions contemplated by this Agreement.

"Board of Directors" means the Purchaser Board of Directors, the CFAC Board of Directors, or the CareFirst Board of Directors, as is indicated by the context in which the term appears.

"CareFirst" means CareFirst, Inc., a Maryland corporation.

"CareFirst Common Stock" shall have the meaning set forth in the Recitals hereto.

"CareFirst Company" means CareFirst and each CareFirst Subsidiary (collectively, the **"CareFirst Companies"**).

"CareFirst Disclosure Schedule" means the confidential disclosure provided by CareFirst to Purchaser pursuant to this Agreement.

"CareFirst Environmental Reports" shall have the meaning set forth in Section 4.15 hereof.

"CareFirst Insurer" means the Primary CareFirst Insurers and any other Insurer that is directly or indirectly owned, controlled or operated by CareFirst or any of its Affiliates.

"CareFirst Material Adverse Effect" shall mean a material adverse effect on the business, assets, liabilities, financial condition or results of operations of the CareFirst Companies, taken as a whole. The failure of any of the CareFirst Companies to qualify as an "existing Blue Cross and Blue Shield organization," as defined in Section 833(c)(2) of the Code, shall not constitute a CareFirst Material Adverse Effect.

"CareFirst Material Contracts" means, with respect to the CareFirst Companies: (i) the 25 largest provider and 25 largest customer contracts measured in terms of payments to or receipts from any CareFirst Company; (ii) any contract, other than a provider contract, customer contract or employee benefit plan, arrangement or agreement, that, by its terms, does not terminate within one year after the date of such contract and is not cancelable during such period without penalty or without payment, and which involves an aggregate payment or commitment on the part of any party thereto of more than \$1 million during any twelve (12) month period; (iii) any contract, other than a contract, plan, arrangement or agreement referenced in subsection (ii) above, that is material to the financial condition, results of operations, assets, business or prospects of the CareFirst Companies, taken as a whole; and (iv) any material loan agreement or other evidence of indebtedness for borrowed money.

"CareFirst Owned Properties" means any real property that is owned in fee simple by any CareFirst Company.

"CareFirst Permitted Liens" means any (i) liens for taxes not yet due or which are being contested in good faith by appropriate proceedings, (ii) mechanics' or similar liens, (iii) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation, (iv) easements and similar encumbrances incurred in the ordinary course of business which do not materially diminish the value of the property subject thereto and (v) purchase money liens and liens securing rental payments under capital lease arrangements.

"CareFirst Plans" shall have the meaning set forth in Section 4.12(a) hereof.

"CareFirst Primary Filings" shall have the meaning set forth in Section 4.4(b) hereof.

"CareFirst Properties" shall have the meaning set forth in Section 4.15 hereof.

"CareFirst Subsidiary" shall mean every entity in which CareFirst owns 50% or more of the outstanding equity, directly or indirectly, and each CareFirst Insurer.